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Agricultural banks

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AGRICULTURAL BANKS.

FROM THE JOURNAL OF COMMERCE and COMMERCIAL BULLETIN,

DECEMBER 7 and 8, 1896.

MORE MONEY? OR MORE CREDIT?

No person intimately acquainted with the condition of the Western farmer or the Southern planter is likely to deny that a real want lies behind their clamor for free coinage. Both are deeply conscious of a lack of financial help, which they justly think it is somebody's business to supply. As a rule, they have been unable, during the now reduced prices for their products, to save an amount of working capital sufficient to plant their crops, pay for labor, buy live stock, fodder and manures, and to improve their lands and procure implements. Each crop is largely pledged in advance for outlays contributory to its growth; and what balance of means may be left over for raising the succeeding crop is entirely insufficient. Two results come out of these conditions; the cultivator becomes dependent upon the storekeeper or the factor, who exacts high prices for what he buys and high rates of interest for what he borrows; and he is still unable to make outlays sufficient for getting out of his land what it is capable of producing. His want of working capital to carry him between crop and crop compels him to starve his land, and starving his land he starves himself. Under this sort of process, a large proportion of the Western farmers and the smaller

Southern planters have been steadily growing poorer, until they have become ready to catch at any straw of help that crafty politicians may offer them. Those possessing reserve means appear to be still able to make moderate profits, in spite of the low prices for produce; but, without such reserves, farming and planting have become short-cuts to poverty.

Under these conditions, these two classes have come to imagine that their relief must come from "more money," as the vague phrase goes; and hence their eagerness for the kind of money which the silver miners are so disinterestedly anxious to supply. Their cry for more circulation is, however, more natural than reasonable. The supply of money might be increased to any conceivable extent without benefiting them in the least. For how are they to become possessed of any part of the additional money? Clearly, only by giving something in exchange for it. But an increase in the supply of money would not increase their ability to sell. It would give them no more cotton or wheat; and their working position therefore would not be bettered one jot. The ability to buy must be preceded by the ability to sell; and whoever wants money must have property to give in exchange for it.

The trouble with these classes is that they have not sufficient produce to dispose of; if they had, they would find no difficulty in getting more money without any increase in the national supply of currency.

The only possible way of improving the condition of the planter or the farmer is through an increase of the productiveness of his acres. That can be done only by putting more labor and manure into his land, by redeeming his waste places and by draining his swampy tracts. It would also be an additional advantage if he were enabled to carry his products so as to avail himself of states of the market most favorable to selling. But, having no working capital wherewith to do these things, his only possible resource must lie in being able to borrow for the interval between one crop and the next. It is therefore CREDIT and not money that these classes want. If they can borrow, they need not trouble themselves about the national stock of money. The lender will supply the money along with the loan.

Nor is it a hopeless or tantalizing conclusion that the agricultural classes must seek relief in credit. It may be an unwelcome innovation to the farmer that he should have to resort to this expedient. Until some ten or twelve years ago, he usually had a reserve of means that provided for all the wants of cultivation and enabled him to make steady additions to his acres. Then he held the proud distinction of being the only producer independent of credit in the management of his affairs. Under the modern conditions, he may not enjoy that luxury of self-sufficiency; but if he has to come down to the position of a debtor, he only descends to the level of the merchant, the manufacturer and the banker. The industrialist has to procure his raw materials and his labor on credit; the distributor has to defer payment for his goods until he has realized upon them; the banker has to borrow the floating funds of his depositors in order to become a lender. The farmer and the planter would do but the same thing if they should borrow the means needful to a better and more productive cultivation of their land. In this country, legislation has not yet recognized this very important want. It has legalized and regulated lending to the

larger employments of capital by a highly elaborated system of laws; but it has overlooked the smaller individual wants of a class who, in the aggregate, own property to the value of nearly three times the sum of the capital employed in all our manufacturing industries combined, and whose products and prosperity lie at the very foundation of the public wealth. This seemingly incredible neglect is no doubt due to the fact that, until recent years, the agricultural class have not needed credit in the way that it has been required by other industries. But now, that they have come to need such fostering, it would be difficult to assign a satisfactory reason why their needs should not be awarded a due recognition by Congress.

Our existing banking arrangements make almost no provision for the special wants of the farming class. They cater for the retail traders, the distributors, the manufacturers and the incorporated interests amply, but almost exclusively; and they have no machinery adapted to the smaller wants of the individual farmer. This absence of specific credit provision for an interest so stupendously important and playing such a preponderant part in the national commerce is simply amazing. It comes in some measure from the disposition to run in old ruts incident to a country of hurried development. But changes have now arisen in the conditions and methods of farming which make it absolutely essential to the maintenance of our agriculture that it should be backed by ample resources of credit. We can have no improvement in methods of culture, no economizing of the gross wastes of farming, no expansion of the size of farms with consequent economies of management, unless the farmer can, like other employers of capital, have the helpful resources of a specifically regulated system of credits. It is the neglect of this now imperative want which lies at the root of the discounts of twenty millions of agricultural population, and their outcry for "more money" and free silver is but a blind attempt to satisfy a need they imperfectly comprehend.

At first sight, it may seem chimerical to talk about a system of credit for the farmers; and it may be true that there is among them a class pos-

sessing small means to whom such a provision could offer only partial ameliorations. But to suppose that an interest owning 20,000 millions of property is beneath the attention of banking, or can properly prosper without it, is simply a monstrous assumption. The field thus waiting to be occupied is a vast one; but it calls for methods of operation entirely distinct from those

known to our ordinary forms of banking. There is no lack of fruitful suggestion as to what those methods should be; for European countries are already employing very large amounts of capital in the creation of this class of credits, with highly profitable results to the institutions and great benefits to agriculture. These precedents we may notice later.

AGRICULTURAL BANKS AND BANKING.

Yesterday, we called attention to the entire lack, in our banking arrangements, of any specific provision for affording credit facilities to our agricultural classes, and indicated the close connection between that lack and the prevailing discounts in the West and South and the clamor for free silver in those sections. It may be of some interest to contrast this very unfortunate omission with the policy of European nations in relation to these same interests.

As a rule, foreign banking systems make distinct provision of one kind or another for granting credits based upon land, or its products. In England, there is no specific legislation on the subject; but the banks in the rural districts do an important business in the way of credits to farmers, either upon personal security or various liens. Scotland's agricultural development of the last 150 years has been built almost entirely upon the system known as "cash credits," which are simply open accounts at bank, mostly protected by personal guarantors, and the banks advancing their own circulating notes to the borrower at a fixed rate of interest. The banks have found this an entirely safe and very lucrative branch of their business. As to the benefits to farming, Mr. Henry Dunning MacLeod observes,—"the invention of 'cash credits'

has advanced the wealth of Scotland by centuries. We have an enormous mass of exchangeable property created out of nothing, by the mere will of the bank and its customers, which produces all the effects of solid gold and silver." In 1895, the joint stock banks of Scotland reported £44,354,000 under the head of "advances, loans, bills and other securities," a large portion of which consisted of these agricultural credits. In Great Britain, the extending of bank credits to the farmers has been afforded entirely by the ordinary joint stock banks and private banking houses. On the Continent, however, these facilities have been provided almost wholly by a special class of institutions known as land banks or mortgage banks.

In Germany, the land credit bank is an old institution. Within the last ten to fifteen years, however, this form of banking has very largely extended its operations, owing to the increasing wants of the farmers. The business is divided between two classes of organizations,—the ordinary private banks, doing a "mixed" business, and the mortgage banks proper, which extend their operations to commercial discounts only so far as their accumulated funds may easily permit. Both classes of banks advance money to landowners, on first mortgage, generally to not more than one-half the estimated

value of the property, at rates ranging from 4½ to 5 per cent. Against the mortgage, the banks issue "letters of mortgage"—their own bonds backed by the mortgages they have accepted, usually bearing four per cent and varying in amount from 300 to 3,000 marks, made out to bearer or specified persons. The "letters" are sold on the market as investments and are very popular as such among persons of moderate means; they are transferable at pleasure. Along with the interest, an amortization charge is usually paid, amounting to about one per cent, which has the advantage of gradually diminishing the principal and strengthening the security of the mortgage. In 1884, the mortgages held by all the German banks amounted to 1,857,400,000 marks, and in 1894 to 4,496,890,000 marks—1,068,890,000 (two-thirds of which by the land banks proper), showing an increase of 142 per cent within eleven recent years. It will be seen from the foregoing statements that the terms upon which the borrowers get their advances are very liberal,—4½ to 5 per cent interest, one per cent per annum to sinking fund and a broad leniency as to the time for which the loans are allowed to run. The banks themselves appear to have equally good reasons for satisfaction with the results of these operations. For the eleven years 1884 to 1894, the 23 land banks paid dividends averaging 7.31 per cent and in 1894, 7.94 per cent, which is a high rate of return for German investments. That group of banks have a total capital of 231,890,000 marks, and their mortgage loans amount to 3,308,600,000 marks, or fourteen times the sum of their combined capitals. Their operations appear to have been attended with a very moderate rate of risk, the total amount of foreclosures of mortgages during the six years 1889 to 1894 inclusive having amounted to 68,200,000 marks, or 11.56 marks per annum. In 1894, the foreclosures amounted to 0.27 per cent of the mortgages outstanding. Experience thus proves that this form of banking is highly safe and profitable. The amount advanced to the agriculturists of Germany is equal to one-half the entire loans and discounts of the National banks of the United States.

Austria-Hungary has also made large provision in its banking arrangements for agricultural borrowers. There, as in Germany, some of the banks of deposit and discount also transact a mortgage business, the National Bank of Austria-Hungary being the largest lender on mortgages. There are, however, several distinctively mortgage banks in both Hungary and Austria, some of which involve a limited general banking business by paying interest on deposits. To some extent, both the mortgage banks proper and the "mixed" banks make advances against city and other real estate; we are unable, however, to ascertain what proportion of their operations are of that character and what upon agricultural property, but the latter immensely preponderate. A small portion of these loans are made to largely landed proprietors, as distinguished from agriculturists proper. We are unable to procure data of the whole extent of the mortgage operations in Austria and Hungary at recent dates; but the following figures indicate the amounts of these loans outstanding in connection with some of the larger institutions:

	Florins.
Bank of Austria-Hungary, 1895.....	134,300,000
General Austrian Mortgage Bank, 1894....	75,300,000
Hungarian (Country) Bank, 1890.....	27,907,000
Hungarian Mortgage Bank, 1890.....	32,427,000
Hungarian Mortgage Credit Institution, 1890.....	94,160,000
	363,993,000
	\$140,000,000

In 1883, the advances on mortgages constituted 35.88 per cent of the entire assets of all the banks of Austria. The proportion is probably even larger now than then; and in Hungary also there has been a rapid expansion of this class of operations. The present total amount for the united country is therefore likely to greatly exceed the sum above specified as for five leading banks. The earnings on mortgage operations appear to range much higher than the average in Germany. For many years, the net profits of the General Austrian Mortgage Bank have averaged 14 per cent. The terms to borrowers are higher than in the case of the German banks, the rate of interest on mortgages ranging from 4½ to 8 per cent. The loans to mortgagors are generally repaid by annual installments, and the maximum term for which they are allowed to run is fifty-two years. In the case of the

General Austrian Mortgage Bank,—which is regarded as a model institution of its class and has been remarkably successful,—the issue of mortgage bonds may be carried to thirty times the amount of its paid-up stock; in 1890, however, those issues were actually but about eight times its capital; and generally the banks appear to keep these advances largely within their charter limits.

Russia began the creation of land banks soon after her emancipation of the serfs, and perhaps in some measure in consequence of that act. It has been the fixed policy of the Government to encourage those institutions, but never to the extent of giving them Imperial guaranty. The earliest successful venture was the Titled Nobility Bank, which, as its name implies, was devoted to the interests of the owners of large landed estates. This bank held, in 1887, mortgages amounting to 12,088,800,000; in 1895, the amount of its advances had risen to 14,688,000,000. In addition, there are now twenty joint stock and mutual companies, whose advances on mortgages aggregated 11,265,000,000 at the latest dates. Included in these figures are 13,477,000,000 of municipal mortgages and 117,800,000 of advances to the nobility; the sum loaned on mortgage to landowners chiefly of the peasant class is therefore 8,872,500,000; while the total held by all land banks amounts to 11,733,000,000. M. Antoine E. Horn* shows that, excluding the Polish banks, the municipal banks and the Peasants' Bank, the total mortgage obligations on January 1st, 1895, amounted to 11,164,500,000, against 11,654,400,000 on January 1st, 1887, an increase of nearly 80 per cent in eight years. The whole advances of the Russian land banks may be stated at 11,200,000,000, or 421,200,000 more than the total like loans of the banks of Germany. Exclusive of the urban loans, the advances average \$7.33 per English acre. The business of the Russian land banks has proved more profitable than that of the like institutions in either Germany, Austria or Hungary, having averaged 15 per cent per annum for the period 1888-1892. Ten joint stock banks, with a combined capital of 141,600,000, had 1,506,000,000 of mortgages in force in 1894, showing that the loans against mortgages were over twelve times the amount

of the capital. The rate of interest charged to the borrower is 4½ to 5½ per cent. The Russians regard the "letters of mortgage" issued by the banks as a sound and convenient form of investment and frequently pay a premium for them.

Italy affords large banking facilities to her agricultural communities through the means of mortgage credits. Up to 1894, the banks generally had been permitted to transact a land loan business; but, after that date, this form of banking was restricted to banks having a paid-up capital of at least 10,000,000 lire. The chief issuers of bonds against agricultural mortgages are now the National Bank of Italy, the Bank of Naples and the Bank of Sicily. The combined issues of the two former institutions in 1893 amounted to 463,500,000 lire, against 215,200,000 lire in 1887; the Bank of Sicily does not report its issues. Included in these figures is an unspecified but moderate proportion of advances upon city real estate and the property of large landholders. The bonds made against mortgages (letters of mortgage) may be issued up to ten times the capital paid-in, and may bear 4, 4½ or 5 per cent interest; the minimum period for which they may run is ten years and the maximum fifty years.

Holland has paid special attention to this form of employing banking resources. Professor Dr. Richard van der Borcht, in his treatise on Banking in Holland contained in "The History of Banking in the Leading Nations" (Vol. IV., p. 365), remarks—"the hypotheekbanken (mortgage banks) form a second special group, which is of great importance in Holland. For this purpose, joint-stock banks first appeared in 1861, viz., the National Mortgage Bank (Amsterdam) and the Netherlands Mortgage Bank. In 1864, the Rotterdam Mortgage Bank and the Inland Mortgage Bank, in Rotterdam, were established; in 1865, the Netherlands Land Mortgage Bank, in Amsterdam. Before the beginning of the eighties, the number of mortgage banks remained small, but from 1882 their number quickly increased, and from 1882 till 1895 twenty-five mortgage banks were founded, and only one of them was dissolved." In 1894, there were thirty-three of these banks in the Kingdom, with a total of 10,160,000 florins of paid-up capital, and 321,339 registered mortgages

valued at 1,192,442,000 florins (\$488,601,220); it will thus be seen that the mortgages averaged 13,711 florins, or \$1,521 each. For the eleven years ending 1893-4, the average dividends paid by all the land banks of Holland ranged between 2.68 and 7.82 per cent, and averaged 5.37 per cent.

The Swiss banks also appear to do an important mortgage business. Official statements of all the banks of issue in Switzerland show that, in 1894, out of fr. 1,104,67,234 of total assets, fr. 377,315,276, or 34 per cent, consisted of mortgages. What portion of these advances was to non-agricultural borrowers and what against mortgages on farming lands we have no means of judging, except what may be inferred from the fact that the farming inhabitants constitute 38 per cent of the whole population.

In France, the people inherit from the days of assignats such a deep distrust towards land security that it has been found impossible to make any important provision for loans to the agricultural population. The only specifically land credit bank in the Republic is the Credit Foncier of Paris, which in 1894 had fr. 1,817,300,000 mortgage loans in force. A largely preponderant proportion of these advances are against city real estate. France can therefore hardly be reckoned as among the nations that make banking tributary to the nurture of agriculture. In her colonies, however, she has pursued a different policy; the banks of Algeria, Martinique, Guadeloupe, Reunion and Indo-China having recently outstanding land loans amounting in the aggregate to about fr. 25,000,000.

To summarize the foregoing facts, we may estimate that the seven countries (exclusive of France) above enumerated, with a total 280,000,000 of population, have advanced about \$2,000,000,000 to their agri-

cultural interests, mainly through a class of banks specially authorized and adapted to conduct a business of that character. The facts show that this form of banking has proved eminently successful, both as to its exemption from losses and its returns to shareholders. What its value has been to the mortgagors is apparent not only from the nature of the case but also from the rapidity with which the farming class are increasing their acceptance of this kind of help.

In this country,—the largest agricultural nation in the world and whose farmers and planters are sorely needing financial help,—we have not one bank specially fitted to afford this form of nurture. The farmer has to depend almost entirely on private loans. In 1890, there existed, in the United States, 2,303,061 mortgages "on acres," covering \$2,209,148,000 of debt. Upon this, the interest charge amounted to \$162,652,944, or an average of 7.36 per cent, to which must be added discounts and agents' fees which amount to a very severe pressure upon the borrowers. These figures show the immense breadth of basis that exists for the organization of a system of banking specially adapted for these particular credits. To the farmers, who constitute fully 40 per cent of our population, the benefit would accrue in a reduced cost of interest, in an exemption from fees and drawbacks, in a greater elasticity of accommodation, and in being able to procure not only long advances on mortgage but also transient accommodation between crop and crop. If legislators feel any interest in conciliating the discontented tillers of the soil, let them try their hands at constructing an agricultural banking system.

* See History of Banking in Leading Nations, Vol. II., page 406.

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